Technical Evaluation of the Property to be Purchased

This Commandment overshadows all others and is, of course, the most difficult to follow. It is not enough to rely upon reputable research and engineering firms to furnish you with a process license as the responsibility for operations can only rest with the licensee. All technical disciplines should be brought together under top management surveillance to review the full objectives of the project and the status of the information being licensed.

Rolling back the frontiers of science, particularly more than one frontier at a time, can prove to be a most agonizing and costly experience. Unproven, novel technology should be thoroughly investigated at the appropriate scale by the licensee. Pitfalls are almost too numerous to mention in attempting to take a completely new process from the laboratory to large-scale operation.

It is recommended that subsidiaries be given total guidance with respect to licensing new technology. It sounds great to give them autonomy in their decisions, but unless they are as completely staffed as the parent company, it is unfair to leave them with this decision.

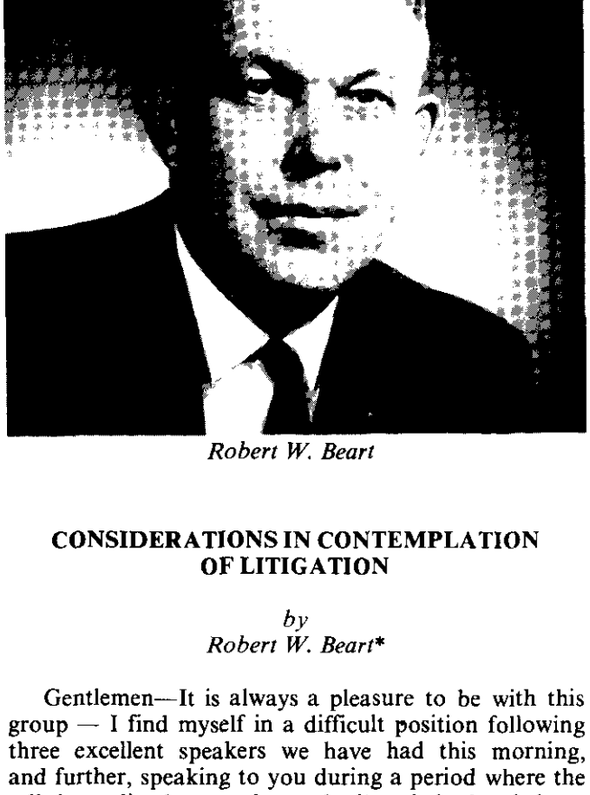
In any license agreement there should be well-stated guarantees of performance which will cause both parties to seriously consider the extent to which the process is actually proven. In the case of failure to meet guarantees, the remedies to both parties should be quire clear. However, as a licensee you can take little comfort in the amount of money to be recovered from the licensor by his failure to meet guarantees compared to the potential losses in a project failure.

Summary

Most of the ten commandments suggest a watch-out or negative connotation to licensing technology, but my own experience suggests a preference for licensing established processes rather than developing a process in-house. The chemical research and engineering effort required to establish a commercial process of some intricacy is usually costly and complete success is not assured. The time required for successful laboratory and pilot plant demonstration of a new process usually runs into several years. The commercial opportunity may have passed, or at least earnings are delayed, pending process development.

The experienced purveyor of processes frequently has streamlined engineering departments aligned with laboratory research for back-up. Their performance in time and money for engineering and construction may surpass your own company capabilities. In fact, the experienced licensor may be so accomplished and persuasive as to create more optimism that is warranted. Hence the suggestion for complete in-house review of license contracts and, more particularly, the detailed examination of the technology.

**About the Speaker: Harlan A. Hashbarger is currently Director of International Growth for Monsanto Company's Organic Chemicals Division. He is a chemical engineer, University of Illinois, '37, with early experience in production supervision and more recently in business group management for Fine Chemicals and Organic Intermediate Chemicals. He spent four years in the International Division of Monsanto forming subsidiaries abroad. His present interest is enlarging manufacture in these subsidiaries and establishing additional ones for the Organic Division. "Hash" is a director of Trans-International Corp. and Town and Campus, Inc., holding companies in Insurance and Real Estate. Avocations include golfing, hunting and admiring grandchildren.*



Robert W. Beart

CONSIDERATIONS IN CONTEMPLATION OF LITIGATION

by
*Robert W. Beart**

Gentlemen—It is always a pleasure to be with this group — I find myself in a difficult position following three excellent speakers we have had this morning, and further, speaking to you during a period where the talk immediately precedes cocktail and the lunch hour which I am sure we are all looking forward to.

My subject this morning is "Considerations in Contemplation of Litigation." I am sure this subject could be treated as the basis for a doctoral thesis; however, it is my intention to set forth the realities as I have observed them in 25 years of practice and on occasion have had to contemplate the subject. I trust that my simple approach to this most complicated problem will not be likened to the story of the pilot who called in to the control tower at Kennedy airport asking for an exact reading of time. The controller asked which airlines he flew for and the pilot took a very obtuse view as to what difference it made. All I want is the time, what is it? The control operator again asked for the airline designation, whereupon the pilot indicated this is UAL Flight 227. With this, the control operator indicated that the correct time was 3:00 p.m. Eastern

Standard Time. He went on to explain that had Pan Am called in they would have described the time as 1500 o'clock, and further that if Ethiopian Airlines called in they would have said "small hand on three, big hand on 12."

I assume for purposes of my discussion that in contemplation of litigation we are limiting ourselves to such matters as patent infringement, unfair competition, carrying away of trade secrets, and other situations affecting proprietary rights which can be the basis of litigation in the federal courts. I am not contemplating such matters as litigation situations involving breach of contract and that type of activity.

Whether you are to be a plaintiff or defendant in the hypothetical situation to which I refer, an extremely important aspect in determining your ultimate decision as to whether or not you will proceed will be your overall attitude that you expect others to exhibit towards your proprietary rights and the attitude which you exhibit towards the proprietary rights of others. Obviously, it is the hope of the speaker and certainly should be the attitude of respectable businessmen that the Golden Rule is woven into their thought processes. Too often businessmen exhibit a double standard attitude; that is to say, that my patented items are basic and should be respected by all, while on the other hand, the contributions of others are identified by the same individual as at most minor improvements in the art, if patentable at all. In the same vein, defendants assuming the posture that all patents can be broken in view of the vast store of anticipatory information now available, place such "helping hands" as an antitrust counterclaim or the utilization of a particular federal court jurisdiction, or perhaps a charge of fraud on the Patent Office against the plaintiff is perhaps all too often the basis of the businessmen's ultimate decision. Letting such factors be the sole and determining consideration, of course, again can be characterized as the double standard approach.

Once the determination is made as to what your broad approach is to the acknowledgement of status of the property rights of yourself and others, an evaluation of the particular property right contemplated in the hypothetical situation is of prime importance. It is now time to contemplate whether or not the product, machine or method is reasonably assured of a long life. Further, the right should be evaluated from the standpoint as to whether or not it is easily avoided or skirted. If perhaps the reason the right is being flaunted by others relates to an extremely limited property right and avoidance can be readily effected, possible settlement might be the appropriate answer to the problem at this point especially if coupled with the limitation of scope of the property right, the product or apparatus does not have the assured long life from which benefit will flow upon successful prosecution.

After determination of the above, if all signals at this juncture are still "go", then perhaps the next most important item to evaluate is the cost which confronts you. We businessmen are in business for one primary function; namely, to make a profit. Those of you which have not been involved in a court action in recent years, perhaps have a rude awakening as to what these days is considered a reasonable cost of prosecution on a situation through the District Court and the Circuit Court of Appeals. In preparing to talk to you today, I made a study of the recent compilation by George Washington University of the cost of 71 recently tried patent actions. The study reveals that the average cost of the 71 patent actions was $100,000. This figure did not include the ancillary help which the patentee or assignee must give the litigating counsel which often times is of real substance. While it is true that in your evaluation of your situation that it is appropriate to realize that the bringing of suit is a cost of doing business and thus will to an extent be facilitated by the tax laws, it is also true that the recognition sought by the plaintiff or the freedom sought by the defendant (whichever of them is involved in the decision we are discussing) must be realistically evaluated and worth the investment from the standpoint of cost of litigation that will be involved. In this regard, the bringing of litigation can be a costly mode of doing business.

There are many other factors which must be studied and enter into our considerations in contemplating what decisions should be arrived at as we determine whether or not to proceed with litigation. These are given in no particular order, but certainly must each be realistically evaluated for the particular situation:

A. *Appraisal of the Risk*

As you prepare for litigation it must be recognized that the prosecution of the application must have been staightforward and must be able to withstand the present popular charge of "fraud in the Patent Office." Further are the practices of your company such as to be able to withstand the more and more popular charge of the defendant of "antitrust" violations. These are almost certain risks that should be evaluated and recognized as a part of the situation which will confront you should you decide to pursue the matter.

B. *What will be the form of the litigation?*

In this regard, there are certainly factors that must be taken into account. Litigation brought in jurisdictions foreign to the location of your company means the added cost of travel, perhaps means the employment of local counsel in the other jurisdiction in addition to the litigating counsel you would normally use. Travel expenses for Motions made to the court and for witnesses, etc., all to become added expense factors. Additionally, we know that there is a difference in the attitude of various forums. Most litigants who have a choice would prefer to bring the litigation in the forum of location of their corporate headquarters. Additionally, studies show that certain forums such as the 8th Circuit for some years have treated unkindly patent litigation and this certainly is a factor to be taken into account.

Perhaps another area of concern to the considerations of the contemplating executive should be a determination of the effect which the litigation will have on the image of the company. In this regard, a determination as to whether or not the company is one who really depends upon the U.S. patent system and the protection it affords must be taken into account. If you are a company who lives on your developments flowing from your own research, it may be that the

protection established by the particular contemplated litigation will not only establish for you the protection to the particular program of the suit but also will build an image in the area of your business purpose that your company is willing to stand up and fight for what is right and that patents should be taken more seriously by your competitors who do not make the outlay of research and development effort and funds which you do. Additionally, perhaps, the situation which confronts you is one that could be likened to a bully who not only puts mud in your hat, but after that ingracious act pulls the hat down over your ears. Perhaps you have no alternative but to meet the bully in an arena where law, order and justice will ultimately prevail, and whether you win or lose, the effort is justified to permanently fix in the minds of the public your willingness to be counted in such situations.

Another very vital determination to be made is what in your estimate will be the ultimate scope of litigation. If you enter into litigation might it spread to others in the industry involved? Might an entire industry reject the position you have assumed? Might there be, in the ultimate situation, litigation in several countries involving the same subject matter? In assessing this area, it is essential that an objective viewpoint be had for the expenses involved might well be a multiple of that which was originally expected should the litigation take one of the courses set forth above.

As we continue to assess whether or not we should contemplate litigation, it now becomes essential to determine whether or not the particular part or product might, in fact, in its marketing be of such a nature that multiple sources will be required with time anyway. It is is a part used in automotive or mass production industries, this is quite often demanded by the purchaser. Should such a factor be involved, perhaps the litigation possibility should be rejected when the realities of the situation are understood. In the same vein, you should determine whether even if you are successful in winning the suit your demands as a result of victory would be meaningful. For example, it is quite often the ultimate action of the plaintiff/litigant that he offers the defendant a license after victory in the court. If this is going to be your ultimate determination anyway and if you feel there is any opportunity to license the potential defendant, perhaps litigation is inappropriate or impractical. Further, if you win are you willing to demand an injunction and to go through a formal accounting which in all probability the defendant will insist upon if the license is unavailable. In the same area, what is your posture going to be relative to demanding back damages or will you simply insist upon the injunction? Perhaps the infringer has infringed little and damages would be small.

Depending on your answers to the above depends whether the businessman starts searching for a good litigating counsel or whether he takes alternative routes, such as licensing or perhaps even abandoning the thought of enforcing the property right which he owns and which has been trespassed. Assuming in the ultimate the answer dictates litigation while there are different routes to follow depending on the situation, perhaps the late Will Freeman, of Freeman, Baer & Molinar, spoke most realistically when I once asked him what to do in most situations. His advice always was "file suit and thereafter open discussions." Filing suit may open the door. This approach of Will Freeman eliminates the threat of declaratory judgment actions; the image of your company as a positive doer is perhaps enhanced; and even your willingness to license under appropriate conditions are all aided and abetted by such a positive approach.

On the other end of the scale, obviously as you evaluate your opponent, the position you assume may dictate an opposite action to be taken. For example, perhaps the infringer is well known to you and is also a respecter of patents in the patent system; or, perhaps he resides in the same jurisdiction and any declaratory judgment action that might emanate from discussions that were characterized as threatening or harrassing would lead to litigation in your local jurisdiction, which of course would mean that negotiations in such a situation prior to litigation are possible; or, perhaps he is an ethical member of some professional group and his actions in regard to amicable discussions for settlements of this type of matter might be somewhat predictable.

I guess Will Freeman's attitude in assuming the posture he did was that the mere fact a dog wags his tail does not mean he won't bite. That is not the end of the dog that does the biting.

In the ultimate the businessman wants to use the act of litigation as an effective, positive business tool just like he does in gathering facts to judge a man's credit and whether he will deal with him on a usual 30 day net basis, C.O.D., or not at all. Perhaps the factors in the litigation arena are more complex, but given all of the facts there are available, alternatives that can be considered and used in contemplating the appropriate decision to make. This area of decision making is not for the faint-hearted. It is not for one who is emotional, easily angered, etc. It takes intelligence, study and planning. It must be remembered that there is always one winner and one loser in a lawsuit and also that your ultimate victory or satisfaction may well come from your initial deliberate and complete considerations in contemplation of the litigation situation that confronts you.

**About the Speaker: Robert W. Beart is Senior Vice President, Chief Legal Officer for Illinois Tool Works Inc. He was worked for this company for more than 32 years, having been employed in the manufacturing and metallurgic departments of the company before completing law school and organizing the Legal Department. He served in the Air Force for 4½ years and was Chief Operations Officer for weather for the Pacific Ocean area attached to the 20th Air Force.*

Education: Augustana College - B.S. Degree; Chicago-Kent College of Law - J.D.; John Marshall Law School - M.P.L.; Harvard A.M.P. Program.

He is a Board member of Northwest Suburban Council BSA; President, Illinois Manufacturers Association-Patent and Trademark Committee; Economic Club of Chicago; Trustee of Kendall College; Board of Directors of Lutheran Mutual Life Insurance Company; Trustee Chicago Kent College of Law Alumni Association.